

Ms. Virginia K. Flowers
Assistant Regional Commissioner
for Management and Operations Support
Social Security Administration, Region III
P.O. Box 8788
Philadelphia, Pennsylvania 19101

Dear Ms. Flowers:

The enclosed final report presents the results of our audit of the administrative costs claimed by the Pennsylvania State Department of Labor and Industry for its Bureau of Disability Determination (PA-BDD) (A-13-97-52019). We reviewed the administrative costs of \$144,831,976 for the Social Security Administration disability determinations claimed as of June 30, 1997 for the Fiscal Years (FY) ended September 30, 1994, 1995, and 1996.

While the results of our audit indicate that cost claimed by PA-BDD were allowable and properly allocated and that aggregate funds drawn down agreed with total expenditures, we noted one internal control issue relating to the draw down of funds. Based on our review of the State Comptroller's Office, Bureau of Financial Management, we identified an error where funds were drawn down from the wrong FY funding source. Because controls were not in place to readily detect such errors, the error went undetected for about 9 months. As such, we recommended quarterly reconciliations of draw downs to expenditures for each FY. Since our draft report, the State agency (SA) has indicated that it has developed written procedures to instruct staff on how to reconcile draw downs by FY. We acknowledge the SA's corrective action and urge SA staff to comply with the prescribed guidance.

You may wish to comment on any further action taken or contemplated. If you choose to comment, please provide your comments within the next 60 days. If you wish to discuss the final report, please call me or have your staff contact Donald G. Franklin, Director, Systems and Financial Management Audits, at (410) 965-9706.

Since re ly,

Pamela J. Gardiner
Assistant Inspector General
for Audit

Ms. Virginia K. Flowers
Assistant Regional Commissioner
for Management and Operations Support
Social Security Administration, Region III
P.O. Box 8788
Philadelphia, Pennsylvania 19101

Dear Ms. Flowers:

This final report presents the results of our audit of administrative costs claimed by the Pennsylvania (PA) State Department of Labor and Industry (L&I) for its Bureau of Disability Determination (PA-BDD). PA-BDD performs disability determinations under the Social Security Administration's (SSA) Disability Insurance (DI) and Supplemental Security Income (SSI) programs. The objectives of our audit were to:

- determine whether costs claimed on the State Agency Report of Obligations for SSA Disability Programs (Form SSA-4513) for the period October 1, 1993 through September 30, 1996, were allowable and properly allocated;
- determine if the aggregate of the SSA funds drawn down agreed with total expenditures for the Fiscal Years (FY) 1994 through 1996 disability determinations; and
- evaluate internal controls over the accounting and reporting of the administrative costs claimed, as well as of the draw down of SSA funds.

We reviewed the administrative costs of \$144,831,976 for SSA disability determinations claimed as of June 30, 1997 for the years ended September 30, 1994, 1995, and 1996. Our procedures were designed to determine whether costs were allowable and properly allocated and SSA funds were accounted for properly. Also, we reviewed internal controls over the accounting, recording, and reporting of transactions. The results of our tests indicated that, with respect to the items tested, PA-BDD complied in all material respects with the Federal cost principles and regulations. Specifically, costs claimed by PA-BDD were allowable

and properly allocated and that aggregate funds drawn down agreed with total expenditures. With the exception of one internal control issue, we believe the internal controls for the items tested provided a reasonable basis for the accounting and reporting of administrative costs claimed by PA-BDD. For those items not tested, nothing came to our attention to indicate that the untested items were not in compliance with applicable laws and regulations.

For the internal control issue identified during the audit, the State agency (SA) provided us with comments indicating it has taken steps to implement our recommendation. SSA advised us that it had no further comments. See Appendix D for the full text of the SA's comments.

INTRODUCTION

The DI program was established in 1954 under title II of the Social Security Act (*the Act*). The program is designed to provide benefits to wage earners and their families in the event the wage earner becomes disabled. In 1972, Congress enacted title XVI, the SSI program. Title XVI of *the Act* provides a nationally uniform program of income to financially needy individuals who are aged, blind, or disabled.

SSA is primarily responsible for implementing the general policies for developing disability claims under the DI and SSI programs. Disability determinations under both DI and SSI are performed by an agency in each State according to Federal regulations. To carry out its obligation, each SA is responsible for determining the claimants' disabilities and ensuring that adequate evidence is available to support its determinations. To assist in making proper disability determinations, each SA is authorized to purchase medical examinations, x-rays, and laboratory tests on a consultative basis to supplement evidence obtained from claimants' physicians or other treating sources.

SSA pays the SA for 100 percent of allowable expenditures. Each year, SSA determines the amount of funding authorization. Once approved, each SA is allowed to withdraw SSA funds through the Department of Health and Human Services' (HHS) Payment Management System (PMS) to meet immediate program expenses. HHS' Division of Payment Management is responsible for operating this centralized payments system. Cash drawn from the Department of the Treasury (Treasury) to pay for program expenditures is to be drawn according to Part 205 of Title 31 of the Code of Federal Regulation (CFR) and in accordance with intergovernmental agreements entered into by Treasury and the States under the authority of the Cash Management Improvement Act of 1990 (CMIA), Public Law 101-453, 104 Stat. 1058, as amended. At the end of each quarter of the Federal FY, each SA submits to SSA a "State Agency Report of Obligations for

SSA Disability Programs" (Form SSA-4513) to account for program disbursements and unliquidated obligations. An advance or reimbursement for costs under the program must be made according to the Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State and Local Governments."

PA-BDD is a component within the PA L&I. PA-BDD's sole work is processing SSA disability determinations. PA-BDD maintains 3 locations and employs approximately 600 personnel. Its budget of \$151,699,355 was authorized by SSA for disability determinations for the audited FYs 1994 through 1996.

PA-BDD's financial reporting functions are primarily the responsibility of the State Comptroller's Office, Bureau of Financial Management (SCOBFM). Payroll is transacted by the State Office of the Budget, Payroll Division. Allocation of indirect costs is done according to an L&I indirect cost agreement that is approved by the U.S. Department of Labor.

SCOPE

Our audit of PA-BDD administrative costs for FY's 1994 through 1996 was performed in accordance with generally accepted government auditing standards. The objectives of our audit were to:

- determine whether costs claimed on the Form SSA-4513 for the period October 1, 1993 through September 30, 1996, were allowable and properly allocated;
- determine if the aggregate of the SSA funds draw down agreed with total expenditures for the FYs 1994 through 1996 disability determinations; and
- evaluate internal controls over the accounting and reporting of the administrative costs claimed, as well as of the draw down of SSA funds.

We obtained sufficient evidence to evaluate the financial transactions to determine if they are allowable under OMB Circular A-87 and appropriate as defined by SSA's Program Operations Manual System (POMS). To accomplish our objectives, we:

- reviewed Title 20 CFR sections, the POMS, and other instructions pertaining to administrative costs incurred by PA-BDD and to the draw down of SSA funds covered by the CMIA agreement;
- interviewed PA-BDD personnel, L&I internal auditors, the PA Auditor General's staff, and SSA's staff at the Philadelphia Regional Office of Disability;

- reviewed PA-BDD's general policies and procedures;
- reviewed internal controls regarding accounting and financial reporting, and cash management activities;
- performed an examination of the administrative expenditures (personnel, medical service, indirect, and all other nonpersonnel costs) incurred and claimed by PA-BDD for the period October 1, 1993 through September 30, 1996;
- reconciled the official State accounting records to the administrative costs reported by PA-BDD to SSA on the Form SSA-4513 report for the period October 1, 1993 through September 30, 1996; and
- compared the amount of SSA funds drawn for support of program operations to the allowable expenditures.

We tested documents supporting the costs claimed by PA-BDD for the period October 1, 1993 through September 30, 1996, as reported to SSA as of June 30, 1997.

The work was performed at PA-BDD sites located in Harrisburg, Greensburg, and Wilkes-Barre, Pennsylvania; the parent agency, PA L&I; SCOBFM; the Office of Budget, Payroll Division; and SSA Headquarters in Baltimore, Maryland (see Appendix E for organization of SSA). The field work was conducted from August through November 1997.

FINDING

The results of our tests indicated that, with respect to the items tested, PA-BDD complied in all material respects with the Federal cost principles and regulations. For those items not tested, nothing came to our attention to indicate that the untested items were not in compliance with applicable laws and regulations. We did, however, note a deficiency in PA-BDD's internal controls over draw downs.

INTERNAL CONTROLS OVER DRAW DOWNS

PA-BDD management is responsible for adopting sound accounting policies and for establishing and maintaining an internal control structure that will, among other things, record, process, summarize, and report financial data that is consistent with management's cost assertions embodied in the Forms SSA-4513 reported to SSA. Management controls are the organization, policies, and procedures used to reasonably assure: (i) assets are safeguarded against loss from unauthorized use

or disposition; (ii) the execution of transactions are in accordance with the budget authority and with applicable laws and regulations; and (iii) proper recording, processing, and summarizing of transactions permit the preparation of financial reports and to maintain accountability for assets.

The drawing of SSA funds to pay PA-BDD expenditures is the responsibility of the SCOBFM staff who is assigned accounting and draw down responsibilities over the L&I including PA-BDD. According to CMIA, draw down of funds should only be made when legitimate expenditures exist and there is an immediate need for funds. This is to encourage States to pay only proper charges and not maintain unused funds. SSA funds appropriated for a FY must be obligated in that year. Those FY funds must be used to pay expenditures resulting from the FY obligations and cannot be applied to other years' obligations.

The audit of the draw downs of SSA funds for paying PA-BDD expenditures found that total SSA funds drawn for the 3 FYs audited matched closely to total PA-BDD costs. However, we noted an instance where a draw down error was made which was later corrected. The audit found over \$1.6 million was drawn incorrectly from a FMS allotment account to pay FY 1996 obligated expenditures in April 1996. The funds to pay these expenditures were erroneously obtained from FY 1995 funds, thus creating the effect of over drawing on 1 year and under drawing on the next.

If there had been proper internal controls to ensure that funds were drawn from the correct FY funding source, this error could have been detected more timely. While the SA contends there were procedures for reconciling total draw downs, we identified no written procedures instructing SCOBFM staff to perform routine reconciliations of quarterly draw downs and expenditures by FY. As such, the \$1.6 million error went undetected for approximately 9 months until January 1997 when the error was detected. SCOBFM staff corrected the error and reallocated \$1.6 million back into the correct FMS allotment account. An error of this kind can lead to fund control problems that could adversely effect the operations of PA-BDD and, at the Federal level, lead to errors in budgetary reports and violations of appropriation law.

CONCLUSION

In our draft report, we recommended that SSA instruct SCOBFM to improve internal controls over draw downs by reconciling quarterly draw downs to expenditures for each FY. Since then, the SA has provided comments indicating it has developed written procedures to instruct staff how to perform reconciliations of quarterly draw downs by FY. We acknowledge the corrective action taken by

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the SA. Because adherence to the prescribed reconciliation guidance is key to ensuring that funds are drawn from the correct FY funding source, we urge SA staff to comply with the written procedures.

Sincerely yours,

Pamela J. Gardiner
Assistant Inspector General
for Audit

A P P E N D I C E S

**OBLIGATIONS REPORTED / ALLOWED
PENNSYLVANIA BUREAU OF DISABILITY DETERMINATION
FOR FISCAL YEAR 1994 AS OF JUNE 30, 1994**

	TOTAL OBLIGATIONS			UNLIQUIDATED OBLIGATIONS			
COSTS	REPORTED	NET RECOMMENDED ADJUSTMENTS	ALLOWABLE	REPORTED	NET RECOMMENDED ADJUSTMENTS	ALLOWABLE	REPORTED
PERSONNEL	\$26,514,016	\$0	\$26,514,016	\$0	\$0	\$0	\$26,514,016
MEDICAL	11,787,465	0	11,787,465	0	0	0	11,787,465
INDIRECT	572,153	0	572,153	0	0	0	572,153
ALL OTHER	<u>5,876,163</u>	<u>0</u>	<u>5,876,163</u>	<u>76,266</u>	<u>0</u>	<u>76,266</u>	<u>5,799,897</u>
TOTAL	\$44,749,797	0	\$44,749,797	\$76,266	\$0	\$76,266	\$44,673,531

**OBLIGATIONS REPORTED / ALLOWED
PENNSYLVANIA BUREAU OF DISABILITY DETERMINATION
FOR FISCAL YEAR 1995 AS OF JUNE 30, 1995**

	TOTAL OBLIGATIONS			UNLIQUIDATED OBLIGATIONS			
COSTS	REPORTED	NET RECOMMENDED ADJUSTMENTS	ALLOWABLE	REPORTED	NET RECOMMENDED ADJUSTMENTS	ALLOWABLE	REPORTED
PERSONNEL	\$29,233,568	\$0	\$29,233,568	\$0	\$0	\$0	\$29,233,568
MEDICAL	14,062,443	0	14,062,443	0	0	0	14,062,443
INDIRECT	1,066,095	0	1,066,095	0	0	0	1,066,095
ALL OTHER	<u>5,820,121</u>	<u>0</u>	<u>5,820,121</u>	<u>231,009</u>	<u>0</u>	<u>231,009</u>	<u>5,589,112</u>
TOTAL	\$50,182,227	0	\$50,182,227	\$231,009	0	\$231,009	\$49,951,218

OBLIGATIONS REPORTED / ALLOWED
PENNSYLVANIA BUREAU OF DISABILITY DETERMINATION
FOR FISCAL YEAR 1996 AS OF JUNE 30, 1996

	TOTAL OBLIGATIONS			UNLIQUIDATED OBLIGATIONS			
COSTS	REPORTED	NET RECOMMENDED ADJUSTMENTS	ALLOWABLE	REPORTED	NET RECOMMENDED ADJUSTMENTS	ALLOWABLE	REPORTED
PERSONNEL	\$29,601,807	\$0	\$29,601,807	\$51,013	\$0	\$51,013	\$29,550,794
MEDICAL	15,853,827	0	15,853,827	1,676,441	0	1,676,441	14,177,386
INDIRECT	1,123,690	0	1,123,690	0	0	0	1,123,690
ALL OTHER	<u>5,849,896</u>	<u>0</u>	<u>5,849,896</u>	<u>494,539</u>	<u>0</u>	<u>494,539</u>	<u>5,355,357</u>
TOTAL	\$52,429,220	0	\$52,429,220	\$2,221,993	0	\$2,221,993	\$50,207,227

STATE AGENCY COMMENTS

MAJOR REPORT CONTRIBUTORS

This audit report was prepared by the Office of Audit, Financial Management Audits Team in Baltimore, under the direction of Donald Franklin, Director. Audit staff included:

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For additional copies of this report, please contact the Office of the Inspector General's Public Affairs Specialist at (410) 966-9135. Refer to Common Identification Number A-13-97-52019.

SSA ORGANIZATIONAL CHART
